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A Society of Organizations

Charles Perrow

It is a truism that we live in an organizational society, and that organizations are important. But it has not been fully appreciated that organizations are more important than most other units of analysis or objects of analysis. So, unless you are an organizational theorist, in the next 40 minutes your specialty will be treated as a dependent variable; organizations will be the independent variable that shapes political and economic behavior, the stratification system, religion, social psychological processes and history in general.

My proposition is that organizations are the key to understanding our society because *organizations have absorbed much of society*. They have vacuumed up a good part of what we have always thought of as society; they were once just one of the many parts of society; now they contain, control, or have eliminated many parts of society. No important process goes on in the U.S. that is not caused by, directed by, or crucially mediated by, organizations.

There are three phenomenon that gave the U.S. a society of organizations: wage dependency, which made citizens available for organizations; the externalization of the social costs of extensive organized activity, which hid the costs from citizens; and the development and spread of a novel form of bureaucracy, »factory bureaucracy,« which made controls unobtrusive. Together they led to a society of organizations where interactive complexity and tight coupling produce economic and social crises.

Wage Dependency

Wage dependency means that to survive, one must work for someone else (and their profit) and receive compensation in the form of money. It covered about 20 percent of the population in 1820, and went to 80 to 90 percent by 1950. In 1820 the self employed were mostly farmers; a small segment consisted of craftsmen or small business people; another segment farmed part of the time and worked part

of the time for others; and still others moved back and forth between the wage labor market and subsistence farming or crafts or trades. Lack of permanent wage dependency in what was, for the early part of the 19th century, a bountiful society, meant a great deal of individual discretion. Even the temporary laborer had the resources to secure food and fuel through hunting, fishing, a bit of farming, and woodcutting, and had some time for handicrafts, all of which prevented dependency upon employers. Permanent wage dependency cut off all alternatives and made one fully dependent upon employing organizations.

Why the change? The population and its buying power grew quickly because of the abundant resources of an unexploited continent. This created a large market that in turn required continuous feeding. Part time workers, cottage industries, and the putting out system did not provide reliable production. The most efficient way to feed the market was to require long and steady hours from people doing highly specialized, easily learned tasks. The steam power and electricity made the 12 hour day, and year around work close to markets, possible. Immigrants were an ideal labor source, since the self-employed farmers and craftsmen fiercely resisted the wage dependency of factory work. Immigrants came from depleted societies to a new, abundant one, and 60–70 % percent of them stayed on.

Both organizations and the wage dependent population had a steady increase and produced bountiful goods and enriched the nation, and especially the new capitalist class. Inequality of wealth in the U.S. grew steadily with wage dependency in the 19th century, but the nation as a whole prospered too, heedlessly consuming the abundant resources and herding the surviving natives into »reservations«. The spread of the wage system however, was a fearful change for the society; it was chronicled as »wage slavery«, and then as the »industrial army«; these were the only institutions people could conceive of that had such control over people. One might want to escape the idiocy of rural life and the hardships of farming by going to the city, but going to the city was supposed to mean going into business for one's self, learning or working at a craft, joining a business of a relative, or temporary wage labor until one could be self employed. To go into a factory and be a wage slave was something else. By the last quarter of the century it was clear that few could escape wage dependency; by 1950, only about 20 percent did, a reversal of the proportions in 1820.

With wage dependency a bit of society disappeared. A measure of self sufficiency, the breath of skills that accompanied it, and the cognitive activity associated with it, disappeared. One's role in the polity shrunk, as wage getting became the primary issue. And the traditional obligation that the farm owner or master craftsman or the merchant had for the welfare of his »hands« was not a part of the new wage system. A buffer against hard times, accidents and death war removed. As limited as that obligation might be, it was perceptible, whereas the

obligation under the wage system could be non-existent. In fact, with blacklisting, an expression of enforced wage dependency, the obligation was clearly one-way, from the worker to the employer, and backed up by the state. Since the system now produced violent business cycles, wage dependency was a very serious condition.

Externalities

The second important transformation stemmed from the increasing amount of economic activity controlled by ever larger organizations, and involved the displacement of social costs onto non-owners, principally workers and communities. Since the social costs of activity are not included in the price of the goods or services, they are absorbed by non-owners. Two effects followed: first, the externalities were so large that they overwhelmed the existing institutions that had absorbed them, and thus the viability of churches, neighborhood groups, lodges, burial societies etc. was weakened, and with it non-organizational society. Second, new organizations were created to cope with the externalities, increasing the rush to an organizational society, and generating their own externalities.

For example, if pollution costs were internalized, less polluting processes would be developed to avoid the cost, and then pollution clean-up organizations would not be needed. If the costs of workers sustaining possible unemployment were internalized through long term employment contracts, the incentive to avoid overproduction or declining sales would be high enough to promote more rational planning. As a consequence, the necessity for welfare organizations would be greatly reduced.

Externalities are present in all economic systems, but competitive capitalism is the only one that *requires* that organizations maximize externalization, and a weak central government virtually insures it.

Some of the externalities that were disguised or neglected by firms were pollution, crowded cities, transportation costs once workers could no longer live near their workplace, industrial accidents, violent business cycles, and the exhaustion of easily available natural resources. New organizations, public and private, rose to cope with the damage. We associate the appearance of these organizations with progress, even prosperity. They range from welfare institutions such as prisons and asylums and the related court system to public health departments, hospitals and associated training institutions, and on the pollution clean up organizations concerned with sewage and then toxic wastes, and more intensive resource extraction organizations as the easily available resources were exhausted.

Much of industrialization is concerned with coping with the problems it generates; all of it brings the small, relatively autonomous, loosely coupled social units into the large organizations or destroys them, and what we still think of as society is destroyed with it.

Factory Bureaucracy

I will refer to the third major change as the development of »factory bureaucracy« to highlight its novelty and the role of factories in developing bureaucracy. After 1920 or so it is so widespread and firmly grounded that bureaucracy, or even just »organization« will suffice.

Large scale organizations have been around for centuries, building the pyramids or Venetian ships, establishing religions, fighting wars, administering kingdoms. Some had a core of permanent employees, that is wage dependent individuals, or were total institutions such as the Catholic Church. But only with industrialization, and initially with the factory, did the elements of factory bureaucracy come together in a large number of organizations, enough of them for the organizational pattern to be readily and easily adopted by new organizations in the growing economy.

The principal problem for entrepreneurs and capitalists producing goods and services was continuous, predictable production. If the work force had to work for someone else in order to eat, they would show up for work. But to get them to work hard, and to do exactly what they are told, *centralized control* is required. The putting out system, craft production, inside contracting and other devices did not provide centralized control such that one person at the top could reach directly into all processes. Factory bureaucracy established centralized control where all processes were either brought together under one roof, or otherwise controlled by the owner. Since production was complex, centralization also meant that *hierarchy* had to be established, making it quite clear to whom each person in turn reported, by establishing hierarchy as a principle, persons such as foremen or supervisors filled roles or job slots that were independent of the person, and obedience was given to the position, an aspect of formalization.

Formalization meant establishing not only hierarchical chains, but standard operating procedures and rules and regulations. When fully implemented (it took F. W. Taylor to see the need for full implementation) it meant that superiors would know what skills the subordinate used (the better to control him or her), could control and change those skills as needed, and subdivide the work so that

wages could be closely matched to the level of skill, thus paying each category the minimum possible. Finally, *standardization* and *specialization* of as many tasks as possible was necessary. Standardizing tasks reduced the necessary training time, and simplified the work so that more people would be qualified for the job, lowering employee power. (It also probably meant more even quality levels, and even lower materials costs.) Specialization could take place once tasks were standardized, raising output. Specialization is normally thought to mean raising skill levels, and it can mean that. But it can also mean narrowing them, or what came be called »deskilling«. The growth of bureaucracy entailed both skilling and deskilling.

These elements, which constitute the definition of the modern form of bureaucracy — centralization, hierarchy, formalization, standardization and specialization — were only gradually introduced. There was opposition to bureaucracy, just as there was to wage slavery. One of the biggest impediments to full bureaucratization during much of the 19th century was the inside contracting system. It was used in the most technologically advanced and most mass production industries, and it delayed the appearance of full fledged bureaucracy in these organizations. In this system the owner provided the building, supplies and power source, and major pieces of machinery, and the contractor hired, fired, paid, and directed the work of his crew, which could be as large as 100. He worked on the basis of annual contracts for so many trigger assemblies, rifle stocks, sewing machine treadles or whatever.

Inside contracting, though very efficient and responsible for continuous innovations, violated most of the emerging principals of bureaucracy to at least some extent. The *hierarchy* was truncated, because the inside contractor hired his own workers and the owner had no control over them. The shortened hierarchy meant that *centralized control* was limited. *Formalization, standardization, and specialization* were all limited since the contractor could set his own production rules, etc. Of course, he was bound by the contract to deliver a certain number and quality of rifle barrels or sewing machine chains or whatever, and the delivery date was formalized, but this concerned his contract with the owner, not with his own employees.

The system was remarkably efficient since it was in the interests of the contractor to innovate, and the owner did not incur the many »transaction costs« of hiring, paying, and especially, supervising workers. But it also spread the wealth, and some of the contractors made as much as the owners did. And it also fostered group loyalty since contractors utilized personalistic bases of hiring, and often lived with or close to their workers. In fact, this highly decentralized, profit sharing, »human relations« oriented system is being rediscovered today. It disappeared in the late 19th century because the profits of the contractors could be

appropriated by owners if contractors became foremen, and because it fostered too much labor solidarity.

Bureaucracy means efficiency for most organizational theorists, but for me it means primarily an unobtrusive control device of unprecedented power, so efficient and effective that it could supplant many of the controls that had no workplace sources, removing them from non organizational society. »Habits of the heart« were being installed, often at the age of 10 or 12; certainly by 16, and then 18 later in this century. Bureaucracy offered elites an assist that gave them unprecedented control over the society, given the scope and complexity of that society, since it provided such exquisite control over the institutions that were absorbing society – the bureaucracies. For owners in the private sector and managers in the public and non profit sectors, indirect and unobtrusive controls are far less costly than direct controls, where orders have to be given and performance observed. Factory bureaucracy replaced direct controls with rules and procedures, which are always in existence and quite impersonal with machinery, which in essence is a bundle of rules built into a machine (recall that workers were brought into factories for surveillance and for long work hours; the machinery came later to make use of this convenient agglomeration of hands); bureaucracy delegated any necessary surveillance to lower levels in the hierarchy; and it standardized inputs and outputs as much as possible to reduce the need for many controls. The result was a much more impersonal and remote control system, and a vastly more effective one. It served to legitimize factory bureaucracy in society, since it was a vast improvement over direct controls. But since so much of one's daily time and indeed, one's fate now lay with the organization, the society outside of the organization had to prepare and socialize its members for these bureaucratic structures. Citizenship came to emphasize punctuality, obedience, respect, patience in service to another and patience about moving up, and the necessary literacy and numerical skills. The unobtrusive controls of society that were irrelevant to the workplace, to the organization, such as reciprocity, ethnic and religious culture, and the extended family, withered in importance.

The importance of factory bureaucracy can be seen in its swift adoption by almost all organizations in the U.S. in the latter part of the 19th Century and into the first third of the next century. Schools, colleges, hospitals, prisons, state and private welfare agencies, foundations, voluntary associations of all types and government itself »bureaucratized«. Reformers and organizational founders alike hailed the industrial organization model – factories, by and large – as the important social innovation of the time. And it truly was. As Max Weber put it, all else is dilettantism, and he cited speed, precision, calculation, predictability, impersonality and accountability as its virtues.

An unexamined and uncritical conclusion of Max Weber and his contemporaries, and for the vast majority of social scientists today, was that the only way to achieve these efficiencies was through factory bureaucracy. But industrialization could have taken place under the more flexible and equitable inside contracting system; the craft system could have been preserved rather than destroyed; and different principles of organization could have survived that emphasized decentralization of control, profit sharing, output control rather than control by rules and regulations or direct controls, and so on. In fact, U.S. industry was at a sort of crossroads after the Civil War, and could have institutionalized the more decentralized form that existed, mobilizing self-regarding rather than other-regarding forms of behavior. (According to Piore and Sabel the decentralized form did persist in parts of Europe and has been the basis for a resurgence in productivity and community-wide welfare provisions.)

Or, the U.S. could have followed the route that Lenin and his successors in the U.S.S.R. took, where Taylorism was installed with a vengeance and later extended to the satellite countries. This involved a degree of centralization and deskilling that was attempted in the U.S., but was (1) resisted by labor, (2) resisted by the community, and (3) was less necessary for the profits of owners given the abundant natural wealth and strategic location of the U.S. in the 19th and early 20th century. The form of factory bureaucracy adopted in the U.S. was, then, a middle ground; both the more »liberal« and the more reactionary paths were possible and were taken by others.

Of course, this argument runs counter to most respected interpretations, which cite efficiency as the reason for bureaucracy, as in Chandler, and even massive conglomerates, as in Williamson. They have a very narrow definition of efficiency and no definition of externalities, however. I argue that market control and profits are far more important as motives than efficiency, and are consistent with the economic theory of capitalism, which recognizes profits as the driving force, not productivity and certainly not social efficiency.

Some examples of my reinterpretation of the dynamics of our industrial history will illustrate my point: Child labor was widespread when it was profitable for owners; when the technology and type of work changed, it declined, and only *after* its decline was it outlawed by reformers. Wage cuts were not just a response to narrowing profit margins or competition since they occurred when the companies were having banner years and by those with extensive market control. Wage rates were a matter of class-wide discipline or maximum profits, not just economic survival and competition. For the great majority of the few firms that established them, company welfare programs appeared in times of labor shortage and were abandoned at the first sign of labor surplus; this suggests that nothing but obtaining sufficient labor at the lowest cost was

involved, despite the rationalizations that owners offered and current researchers accept.

The externality of industrial accidents was addressed in a fashion, under pressure, and with a distinctively bureaucratic solution: Workman's compensation was enacted because the contingent fee system allowed lawyers to represent poor workers, and the law suits being won were beginning to cost industry dearly. The solution was to set up a bureaucracy to adjudicate cases and control the benefits. Benefits were set at a minimal level, far below those awarded in courts to individuals, all firms were taxed, thus spreading the resulting price increase extremely widely, and effectively minimizing the incentive of the individual firm to follow safe practices. The conservative A.F. of L. union supported workman's compensation, but most other unions saw its implications and opposed it.

Deskilling was widespread, not in a static technical sense of comparing jobs in 1880 with those in 1980, for example, but in terms of the relative skill level of the society at each point in time. Today it may require more skill to drive to work than to carry out the tasks at work for a third or more of our workforce; this was not true in the 19th Century. According to some analyses the average employee today has two more years of schooling than is required by the job, and most jobs require only an eight grade education or less. In *relative terms*, the only terms that count in a society where education and cognitive skills have expanded rapidly, we have a deskilled society as compared to the first half of the 19th century.

(My point is not that the 19th century was a preferable society at all; life was nastier, more brutish and rather short. My point is first that generally speaking, the history of industrialization, as written, has *not* been one of wage dependency, externalities, the control consequences of bureaucracy, and the alternative paths that might have been taken, for better or worse. Instead, the history of industrialization has been relentlessly functionalist, assuming linear development, concerned with narrow efficiency and output, and celebratory. I believe a focus upon organizations will redress that deficiency.

The cost to our society in wealth and income increased markedly up to about the turn of the century. Thus, while life for all improves, life for the poor improved far less. Inequality of wealth stabilized at the end of the century, but remained high; to this day, it is the highest of all industrialized nations except, I believe, France and South Africa, despite 80 years of social movements and progressive legislation. The increase in the standard of living is hardly a matter of celebration since it was based in considerable part on the rapid consumption of the vast natural resources available in the new land, the increased hours of labor of the wage dependent citizenry, the geographical mobility of labor, and the concentration of wealth that, along with foreign investments, provided the investment capital and thus reaped most of the returns.

In fact, it was *necessary* for the standard of living to rise because it had to compensate for the new degradations and the new necessities that industrialization and bureaucracy required, such as more health facilities because of more accidents and pollution, or better transportation because people could no longer live close to their source of livelihood. The most important change in the standard of living was better nutrition, and industrialization's contribution to better nutrition was rather indirect — improved transportation and refrigeration. Most of industrialization's triumphs were concerned with itself, concerned with the fouling of its own nest. The triumphs were concerned with such things as facilitating the growth of the organizations that industrialization needed by moving people and goods about more quickly and to more distant places, by enabling more crowded cities to appear and survive so that organizational efficiency could be higher, and with the improvement of weapons and warriors for acquiring territory and protecting overseas markets. A society of organizations began to appear when feeding the organizations and cleaning up after them became the criteria for efficiency, productivity, and progress.)

Complexity and Coupling

Between 1820 and 1900 the U.S. went from a very loosely coupled system to a moderately coupled one; by 1950 it was tightly coupled, and by 1988, perhaps dangerously so. In 1820 the interactions between communities, and between the few organizations of any consequence were, by and large, visible, predictable and could be anticipated. By 1900 the number and size of organizations had grown substantially, as had the communities, and unexpected interaction were beginning to appear, as in the panic of 1893. One result of the coordination problem for the large organizations were the industrial trusts and combinations, and then the multidivisional form, and finally, by 1950, the first conglomerates — it was the organization of organizations, with business and trade associations, and government bureaucracies trying to manage the interdependencies. The power of individual capitalists, families, and alliances peaked about 1920; their control over government and communities was unprecedented. But internal divisions and contradiction within business and industry made control of the expanding economy more and more difficult, and the tycoons faded. Nevertheless, their organizational empires continued to grow, bumping into each other, merging and dissolving, increasingly reacting to organizational rather than class or family dynamics.

As the new system took form we developed devices to buffer, control or try to decouple the increasingly mysterious interactions, such as the federal reserve system, occasional price and wage controls, unemployment insurance, social security, planning councils, deficit spending, etc.

The federal government, labor and communities presented somewhat successful challenges to the hegemony of the large financial, industrial and business bureaucracies. The degree of inequality of wealth in society no longer increased, but was stabilized. But it took the progressive movement, the New Deal, the union movement, progressive taxation, and the civil rights movement to just maintain that degree inequality, one of the highest among industrialized nations, and it is has recently risen. Meanwhile the infrastructure of society formed to support the system of wage dependency, externalities, and factory bureaucracy, but it was an organizational infrastructure, drawing more power and function out of what was once considered society and putting it into large educational, recreational, medical, government and social service bureaucracies. Wage dependency soared; the independent professions became bureaucratized; school system centralized; social work targeted the intrapsychic problems of the non poor; medicine transformed the hospices and withdrew into them; imperial business created the city manager movement; credentialing and bureaucratizing symbolized the infrastructure.

What was the society that was now being contained within large employing organizations or their small satellites? A full service one, where up to 45 percent of your earnings pay for services — fringe benefits — that you may or may not want, and are designed and controlled by your masters, and only 65 percent is left for you to freely spend.

I think it makes a difference in the relative strength of society as opposed to organizations if the organization is the source of the following social functions, or the arbiter of their availability: psychotherapy and counseling, educational opportunities, sex therapy, days off for a Christmas shopping, tax and investment advice, sports facilities, comprehensive medical care, maternal and paternal medical leave, vacation planning and vacation resorts, travel services, relocation services, formal training programs, retirement counseling and planning, religious facilities and funeral services, and if you are really lucky, even child care.

We applaud these; we count as a progressive employer the firm or university that supplies our needs through these services (some of them tax-avoiding devices that are thus financed by the less fortunate employees in marginal organizations). But they shape our behavior and our consciousness in unobtrusive ways, taking a bit of choice that once was outside of the employment contract and putting it into that context. Our choice is less subject to family and kin, neighbors, peer groups, or religious or ethnic ties, the society of the past. It may even be a

compassionate organizational gesture, but we have to depend more and more on large employing organizations for our compassions, if we are lucky enough to be in one, not from what was once considered a society we helped construct.

I know, my long list of services that the enlightened employer provides was poorly performed in 1820, if at all. But most of these services now exist to redress externalities that hardly existed then, and with the wealth of this nation we might expect these and more services to now be available as a right of citizenship, rather than as condition of employment at a progressive organization, and controlled by that organization.

There is an additional consequence in having such services as these performed or offered on contract bases by employers, rather than independent groups. With the absorption of society goes the increasingly unmanageable interdependencies between large, encompassing organizations. For example, the interdependence of large organizations is increased such that the insurance providers become dependent upon employee medical benefit contracts, and favor them; and the employer becomes dependent upon the insurance providers, who, not incidentally, may invest their funds in the employers firm; and both become interested in government actions in the benefit area, say medicare; and indeed, in the hospitals and other medical facilities, an interest shared by the government also; and we might mention the possibility of a large labor union being involved also, though only 17 percent of workers now belong to one, and more tangentially, professional groups such as the American Medical Association; and when something like AIDS enters the picture, so does the Surgeon General, the National Institutes of Health, political candidates, gay groups, the moral majority schools and so on.

Elsewhere I have argued that interactively complex systems are prone to system failures, and if they are also tightly coupled, recovery is limited. I was dealing with such things as nuclear plants, chemical plants, air transport and the like. There is some evidence of interactive complexity and tight coupling at work in our social and economic systems as well: I am analyzing the AIDS crisis as a system failure due to the unexpected interactions of multiple failures; the October 1987 stock market crash is a good example of failures in a system more tightly coupled than anyone thought; the deindustrialization of the U.S. can be seen as a failure to maintain small, flexible units of production with loyalties to crafts and location superceding loyalty to and dependence upon the large employing organization; the threat of a world wide economic panic, unfortunately increasingly being managed by making ever tighter links and more elaborate bureaucratic rules, could be another.

I don't see any evolving solutions to managing the increased complexity and coupling of our nation, and its links to the rest of the world. It is true that there is a

renewed interest in decentralization, empowering local units, debureaucratization, flexible production, group autonomy and group integrity. But all these wonderful goals have been on our agendas in the U.S. for decades, even generations, but nothing much seems to change. It may even be that we are not bureaucratized enough, and the corporatism of Europe is preferable to the U.S. variety of capitalism, but I am only beginning to examine the comparative dimensions of the absorption of society by organizations.

To conclude, there are several important sources of our present maladies. Technological change is an important precondition for the dynamics I have described, once we had wage pendency and factories. Certainly our form of capitalism is a part of the explanation; the U.S. has the most virulent form of self interest maximizing capitalism in the West. The formation of modern social classes, attendant upon capitalism, the weakness of the central state, and the penalties of race and gender are all important. But I have tried to focus on what I think is the most important factor, the extraordinary success of a major unobtrusive control device, bureaucracy. This form of organization is, I believe, at the root of our success and of our perils. Coming from an organizational theorist, my conclusion should surprise no one.